# VI. Finance

## Introduction

The development of a financial plan for the 2001 RTP has been under the direction of the SCAG Long Range Transportation Finance Task Force, composed of local elected officials and local agency staff. The Task Force was created to examine how best to provide the financial resources necessary for maintaining the existing transportation system and investing in new projects identified in the RTP.

After reviewing the economic and growth assumptions governing the various transportation revenue sources, the Task Force approved sixteen revenue sources for inclusion in the financial plan. These existing revenue sources, including local, state and federal funds for roadways and transit, make up the baseline revenue forecast for the RTP. The revenue forecast for the six-county SCAG Region is estimated to be $99.8 billion for the 2001 RTP period.

To assess the implications of the forecast, the Finance Task Force created a "Regional Checkbook," where the baseline revenues were matched against a forecasted set of baseline expenditures. The baseline expenditures, an estimated $110.5 billion, essentially represent the costs to maintain the region's transportation system and accommodate limited growth in transit ridership through 2025.

As Table 6. 1 below indicates, the initial Regional Checkbook forecasted a potential baseline shortfall over the period of the 2001 RTP Update, a substantial change from the 1998 RTP. The change is attributable to several conditions influencing the formulation of the 2001 RTP Update financial forecast including:

- the sunset of local transportation sales taxes in Imperial, Orange, San Bernardino and Riverside Counties during the time frame of the RTP;
- the projected loss of gasoline tax revenues due to the market penetration of alternative fuel vehicles over the life of the 2001 RTP Update; and
- the projected costs of operating and maintaining the existing transportation system in the region.

**Table 6. 1**

| Regional Checkbook: 1998 RTP vs. 2001 RTP<br>Constant 1997 Dollars (in billions) | | |
|---|---|---|
| | **1998 RTP** | **2001 RTP** |
| Total Revenues | $ 89.8 (1) | $ 99.8 |
| Total Baseline Costs | (65.1) | (110.5) |
| Subtotal | **24.7** | **(10.7)** |
| Additional Revenues | 0.0 | 40.1 (2) |
| **Net Available Revenues** | **$ 24.7** | **$ 29.4** |

Notes:
(1) Includes $2.8 billion (in 1997$) in transit restructuring savings.
(2) Forecasted revenues generated from Alternative Funding Strategy.

Additionally, legal mandates such as the Consent Decree in Los Angeles County impacts the revenue forecast. The Consent Degree requires that LACMTA purchase additional buses and provide increased bus services. As a consequence of the region's potential revenue shortfall, the Finance Task Force recognized the need for a financial strategy to fund the transportation facilities and services required for accommodating the travel needs of a growing population. Given the potential revenue shortfall, the region would not be able to provide capacity enhancements beyond short-term commitments, let alone preserve the existing transportation infrastructure without an alternative funding strategy.

Faced with the challenge of identifying additional revenue sources, the Finance Task Force devised an alternative funding strategy that would raise $40.1 billion to offset the region's potential revenue shortfall and provide net funds totaling $29.4 billion for advancing new RTP projects. SCAG's policy committees, including the Regional Technical Advisory Committee and the Transportation and Communications Committee, expressed concerns similar to those of the Finance Task Force regarding the implications of the region's potential funding shortfall. The financial strategies recommended to bridge the potential funding shortfall are outcomes of the discussions held at these committee meetings to ensure that there are adequate revenues to meet the challenge of added population and travel over the next quarter century.

To this end, the following section begins with an inventory of existing revenue sources identified in the 2001 RTP financial plan and discusses some of the many conditions limiting the growth of these sources. The overall policy context for creating the financial forecast is reviewed and an assessment of its implications for the development of a credible regional transportation plan is examined. The discussion concludes with a framework for advancing specific funding strategies.

# Revenue Sources

The revenues identified in the 2001 RTP financial forecast are those that have been providing for the construction, operations, and maintenance of the current roadway and transit systems in the region. The baseline revenues include existing local, state and federal transportation funding sources. As Table 6.2 below summarizes, the revenue forecast for the six-county SCAG region is estimated to be $99.8 billion for the 2001 RTP period (1997-2025).

**Table 6. 2**

**Revenue Forecast, 1997-2025**
**Millions (constant 1997 dollars)**

| | Funding Source | Regional Total | % of Total |
|---|---|---|---|
| | ***Local Sources*** | | |
| | TDA | $14,410.6 | |
| | Local Sales Tax | 35,060.1 | |
| | Farebox | 12,608.9 | |
| | Local Agency Funds [1] | 4,888.3 | |
| | Miscellaneous Funds [2] | 2,213.4 | |
| | *Subtotal* | **69,181.3** | **69%** |
| | ***State Sources*** | | |
| | STIP, Regional | 7,337.4 | |
| | STIP, Interregional | 2,006.4 | |
| | Traffic Congestion Relief | 1,910.4 | |
| | STA | 793.6 | |
| | TP&D (TCI)/PTA | 135.3 | |
| | SHOPP/O&M | 5,523.1 | |
| | *Subtotal* | **17,706.2** | **18%** |
| | ***Federal Sources*** | | |
| | RSTP | 2,870.5 | |
| | CMAQ | 2,893.0 | |
| | Local Assistance [3] | 1,186.0 | |
| | Sec. 5309 | 1,854.4 | |
| | Sec. 5307 [4] | 4,081.7 | |
| | *Subtotal* | **12,885.7** | **13%** |
| | ***Total*** | **$99,773/3** | **100%** |
| | Notes: | | |
| 1 | Includes Orange County Gas Tax Fund and private and local contributions to Measure M program; TCA toll revenues; Local agency contributions to specific projects (e.g. Alameda Corridor). | | |
| 2 | Includes transit advertisement and auxiliary revenues, lease revenues, interest, and investment earnings. | | |
| 3 | Includes programs such as Regional Transportation Enhancements, Highway Bridge Rehab., Grade Crossings and Hazard Elimination. Also includes Federal High Priority Projects for the region, other federal funds for specific projects (e.g. Alameda Corridor) and MTA clean fuels program. | | |
| 4 | Includes Section 5311 (rural operating) funds for Imperial and Riverside Counties. | | |



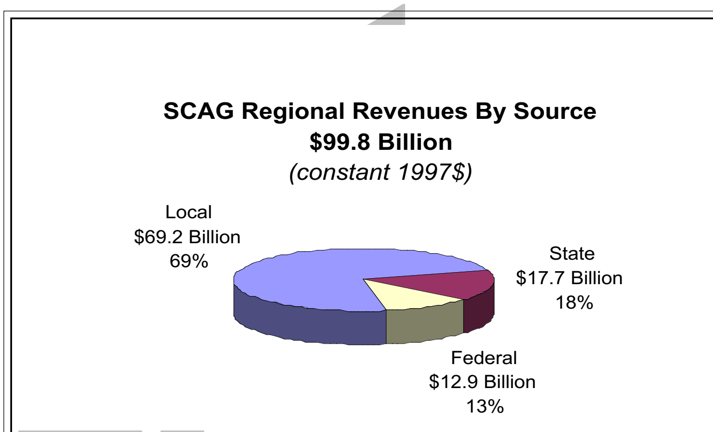
Although the existing funding sources, identified in this table, are insufficient to implement all significant projects that will improve mobility in the region, the current sources of revenues provide a benchmark from which additional funding could be identified.

# Conditions Impacting Regional Transportation Revenues

## *Demise of the Local Transportation Sales Tax*

In the SCAG region, four counties including Imperial, Orange, Riverside, and San Bernardino are considered "self-help" counties. That is, voters of these counties approved special (_ percent) local sales tax measures dedicated to transportation expenditures for a limited time period. These local transportation sales taxes are scheduled to expire over the next ten years in each of the "self-help" counties in the region. Currently, Ventura County does not impose such a tax and Los Angeles County levies a permanent 1 percent tax (a combination of two _ percent tax initiatives, Propositions A & C). As a result of a State Supreme Court decision, a two-thirds approval by county voters is required to re-authorize, increase, and/or impose new local transportation taxes.

**Figure 6. 1**




These taxes are in addition to the sales and use tax levied statewide, and are generally imposed upon the same transactions and items subject to the statewide sales and use tax, namely the sale of tangible personal property and storage or use/consumption within particular jurisdictions.

These local tax measures have become a central feature of transportation funding in the region. Since the advent of the first tax in 1983, $11.5 billion has been raised for transportation projects and services in the region. Of that amount, $6 billion is from Los Angeles County and $5.5 billion is from the remaining four counties.

The local transportation sales tax also underscores the importance of local funding generally in financing transportation investments throughout the region. In fact, the most significant source of revenue is local. Local funding accounts for 69 percent of the $99.8 billion forecasted as being available for transportation investments in the region (see Figure 6.1).

## *Anticipated Market Penetration of Alternative Fuel Vehicles Limit State and Federal Gas Tax Revenue Growth*

SCAG anticipates that technological improvements, required to meet emission reductions, will result in a motor vehicle fleet that will likely consume less gasoline and/or rely on alternative energy sources. The potential market penetration of alternative fuel vehicles, in addition to more fuel-efficient vehicles, would erode the revenues generated by gasoline sales and, if they come to pass, would diminish the gas tax as a reliable source of transportation revenue.

In relative terms, the growth in the use of gasoline has been declining over the last three decades. Between 1970 and 1997 vehicle miles traveled statewide increased 143 percent (from 117 billion to 285 billion miles) while the gallons of gasoline sold grew 70 percent (from 9.4 billion to 16.0 billion gallons). This shows that growth in travel exceeded the growth in gasoline sales by more than two times. California's population during that period, for comparison, grew by 63 percent. It is further anticipated that the California Air Resources Board's (CARB's) policies and the State Implementation Plan (SIP) requirements regarding the introduction of alternative fuels will substantially accelerate the divergence between the increase in travel and the use of gasoline.

## *Potential Erosion of Transportation Revenues due to Electronic-Commerce*

There has been concern regarding the potential erosion of the retail sales and use tax due to internet spending, in which consumers often enjoy not having to pay local and state sales taxes. Local sales taxes for transportation as well as Transportation Development Act revenues, which are derived from a _ percent sales tax, would be directly impacted by trends in retail sales. The national level, the U.S. Congress created an advisory commission to make recommendations on how to address the impacts from e-commerce. The recommendations from the commission include extending the current moratorium on e-commerce taxation for an additional five years through 2006, and establishing clear "nexus" rules to determine whether businesses would be subject to sales and use tax collection obligations.[5]



Current retail sales conducted over the internet remain small relative to total retail sales. According to the Advisory Commission report, online retail sales only accounted for 0.64 percent of all retail sales in the nation during the fourth quarter of 1999. This amounted to sales of $5.3 billion out of a total of $821.2 billion. However, business-to-business transactions are predicted to dominate the e-commerce industry, with transactions forecasted to be $1.3 trillion by 2003.[6]

The potential impacts from e-commerce on the Southern California economy are not well known, although any trends towards the actual loss of sales tax revenue attributable to the internet would have to be addressed by the transportation community. Since taxation issues and policies on e-commerce are currently under review nationally, it is premature to incorporate any potential revenue implications in the 2001 RTP financial plan. However, this topic should remain on the forefront of discussion in future RTP updates.

## *Economic Factors*

The general health of the nation's economy underlies much of the revenues generated for transportation. Whether through excise taxes, sales taxes or transit fares, overall economic conditions play a large role in the level of revenues that are available for transportation.

5 Advisory Commission on Electronic Commerce, Report to Congress, April 2000.
6 Ibid.

Although it is difficult to predict economic fluctuations, the revenue model takes a more conservative approach to providing forecasts in the outer years of the RTP time horizon. This provides fiscal responsibility in the region's ability to finance transportation projects. In addition, inflation is kept constant in the model to provide simple comparisons between alternatives in different time frames.

# Baseline Expenditures

## *Increasing Costs for Enhancing and Maintaining the Region's Transportation Infrastructure*

The SCAG region already has an estimable investment in transportation infrastructure comprised of local streets and roads, state highways, and public mass transportation facilities. Protecting this investment is essentially protecting a segment of the region's economic engine. Should the existing system be allowed to deteriorate, an intolerable decline in mobility would result.

Baseline expenditures, to maintain the existing regional transportation system for the SCAG region are estimated to approach $110.5 billion through the 2001 RTP period (1997-2025). This $110.5 billion is what the region needs to maintain the existing transportation system through 2025, without adding any new RTP projects beyond the current short-term capital commitments[7].

When compared to the 1998 RTP (1995-2020), estimated baseline costs have substantially increased. As can be seen in Table 6. 3, the region's baseline costs have increased nearly 70 percent. This increase results from a more comprehensive evaluation of each of the itemized expenditure categories and a recognition that maintenance expenditures inevitably increase to keep pace with accelerating needs. Many cities, sub-regions, and transit operators questioned the operations and maintenance cost estimates for the 1998 RTP, believing that ongoing operations and maintenance cost were underestimated. Therefore, in adopting the 1998 RTP, the Regional Council requested that this concern be addressed in the next update to the plan. The 2001 RTP attempts to respond to this request by providing a more complete cost assessment for maintaining the region's existing transportation infrastructure.

[7] Current short-term capital commitments are defined in note number (1) under the Baseline Cost table.

**Table 6. 3**

**Regional Baseline Costs**
**1998 RTP vs. 2001 RTP**
*Constant 1997 Dollars (In billions)*

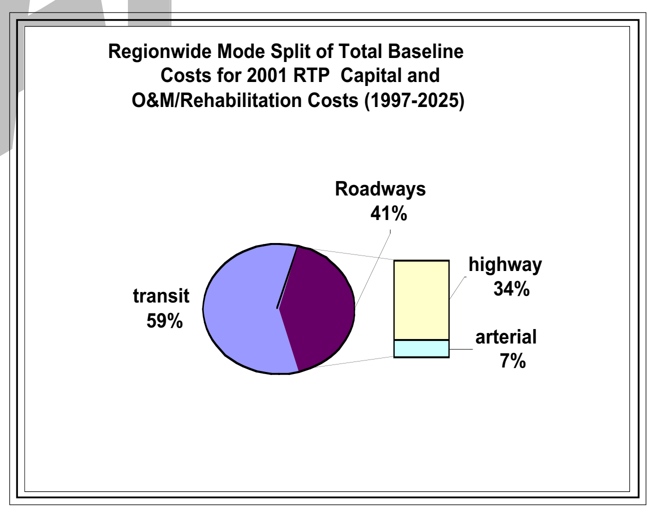
| | 1998 RTP | 2001 RTP |
|---|---|---|
| Baseline Costs | | |
| *RTIP & Other Committed Projects* | $(21.3) | $(35.5) (1) |
| *O&M* | (38.4) | (63.7) (2) |
| *Bonding Costs* | (5.4) | (11.3) (3) |
| Total | **$(65.1)** | **$(110.5)** |

Notes:
(1) Includes current TIP (2001-2006) capital projects that are "regionally significant", grandfathered 1996 TIP and 1998 TIP projects programmed in the STIP. Includes committed sales tax revenues and funds from other sources for Measure projects. Measure tax project costs are spread between "pay as you go" financing and debt financing. This category also includes the total cost of the Governor's Traffic Congestion Relief Plan (TCRP) projects for the region. Revenues associated with TCRP are included in the region's baseline revenues.
(2) Includes operations & maintenance expenses for both transit and roads, Caltrans 2000 SHOPP, and transit capital replacement and rehabilitation. Forecasted transit and roadway O&M and capital replacement are assumed for the existing SCAG regional transportation infrastructure and new capital projects in the 2001/06 RTIP.
(3) Primarily debt bonded against Measure tax revenues. Includes anticipated new debt service issues during RTP period. Also includes a portion of debt bonded against forecasted TCA toll revenues in Orange County.

## *Transportation Mode Split of Baseline Costs*

Based on the 2001 RTP's baseline cost estimate of $110.5 billion, the following charts characterize the transportation mode split for the region. As Figure 6.2 indicates, about 59 percent of the region's baseline costs are transit-related expenditures while an estimated 41 percent represent roadway costs. Roadways are further divided into highway and arterial expenditures. Highways comprise approximately 34 percent of the baseline costs while arterial expenditures account for about 7 percent[8]. Figure 6.3 provides a further breakdown of the mode split on a county level.

**Figure 6. 2**





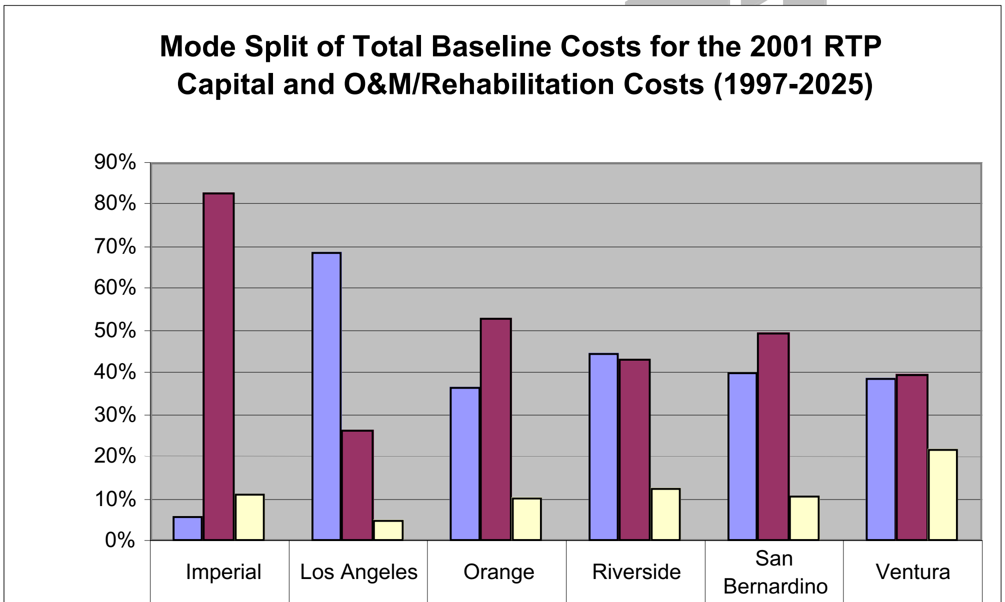

[8] This percentage reflects major arterial and collector expenditures within the SCAG region's network.

# Funding Shortfall

To further assess the region's financial outlook, the baseline revenues were matched against baseline expenditures in the form of a "regional checkbook." As the far right column in Table 6. 4 illustrates, the region is projected to experience funding deficits to operate, maintain and rehabilitate the existing transportation system over the RTP period.

After subtracting baseline costs from revenues, there is a forecasted potential shortfall of almost $11 billion. This means that today's revenue sources would not be enough to pay for the existing needs much less make further investments in the regional transportation system for the long term mobility improvements.

**Figure 6. 3**




| | Imperial | Los Angeles | Orange | Riverside | San Bernardino | Ventura |
|---|---|---|---|---|---|---|
| Transit | 6% | 69% | 37% | 44% | 40% | 39% |
| Highways | 83% | 26% | 53% | 43% | 50% | 40% |
| Arterials | 11% | 5% | 10% | 12% | 10% | 21% |

## Table 6. 4

| Regional Checkbook by County: *WITHOUT* Alternative Funding Strategy<br>In Billions (1997 Dollars) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | ***Baseline Costs*** | | | | | | |
| **County** | **Total Baseline Revenues (1997 – 2025) (1)** | **RTIP Capital (1997-2006) (2)** | **Measure Tax Project Costs (3)** | **O&M (1997-2025) (4)** | **Bonds (1997-2025) (5)** | **Traffic Congestion Relief Plan (6)** | **Total Baseline Costs (1997 – 2025)** | **Net Available for RTP Projects (1997 – 2025) (8)** |
| **Imperial** | $ 0.725 | $ (0.378) | $ ( 0.077) | $ (0.246) | $ (0.000) | $ (0.041) | $ (0.742) | $ (0.017) |
| **Los Angeles** | 65.544 | (13.641) | ( 3.812) | (45.019) | (6.824) | ( 4.465) | (73.761) | (8.217) |
| **Orange** | 15.731 | (3.619) | (1.762) | (6.929) | (3.731) | (0.454) | (16.496) | (1.065) |
| **Riverside** | 6.357 | (1.478) | (0.680) | (4.160) | (0.336) | (0.247) | (6.901) | (0.544) |
| **San Bernardino** | 9.072 | (2.711) | (0.639) | (5.669) | (0.454) | (0.785) | (10.258) | (1.186) |
| **Ventura (7)** | 2.646 | (0.689) | (0.000) | (1.694) | (0.000) | (0.012) | (2.395) | 0.251 |
| **Total** | **$ 99.775** | **$(22.516)** | **$ (6.970)** | **$ (63.717)** | **$(11.345)** | **$ (6.004)** | **$ (110.552)** | **$ (10.778)** |

NOTES:
1) Includes revenues from the Governor's Traffic Congestion Relief Plan. Local gas tax subventions are not included in the revenue forecast, assuming that the subventions are not used for "regionally significant" projects. The EPA's use of the term "regionally significant" is intended to include those transportation projects that would have significant impacts on regional travel, emissions and air quality.
2) Includes current TIP (2001-2006) capital projects that are "regionally significant", grandfathered 1996 TIP and 1998 TIP projects programmed in the STIP. Traffic Congestion Relief Plan projects are shown separately.
3) Includes committed sales tax revenues and funds from other sources for Measure projects. Measure tax project costs are spread between "pay as you go" financing and debt financing.
4) Includes operations & maintenance expenses for both transit and roads, Caltrans 2000 SHOPP, and transit capital replacement and rehabilitation. Forecasted transit and roadway O&M and capital replacement are assumed for the existing SCAG regional transportation infrastructure and new capital projects in the 2001/06 RTIP.
5) Primarily debt bonded against Measure tax revenues. Includes anticipated new debt service issues during RTP period. Also includes a portion of debt bonded against forecasted TCA toll revenues in Orange County.
6) Costs are shown in constant 1997 dollars.
7) Imperial County and Ventura County are outside of the South Coast Air Basin; therefore, revenues for these counties are assumed to be impacted marginally from air quality conformity.
8) These numbers reflect net aggregate results – that is, both capital and operating forecasts are combined for simplicity in analyzing regional revenues. The deficit of $8.2 billion for Los Angeles results mostly from annual operating deficit outweighing any net available capital revenues.

# Guiding Framework for Recommendations to Address the Region's Funding Shortfall

Despite the additional funding provided by recent state initiatives including the Governor's Traffic Congestion Relief Plan (TCRP), SCAG projects deficits over the 2001 RTP period. As discussed earlier, several factors including the expiration of local sales tax measures, declining gas tax revenues resulting from technological improvements and the potential market penetration of alternative fuel vehicles, as well as increasing maintenance/rehabilitation costs account for the region's financial predicament.

The SCAG region would have to develop an alternative funding strategy as a means to maintain the existing system and move forward with committed projects. Given the potential revenue shortfall, the region would not be able to provide capacity enhancements beyond the short-term commitments, let alone preserve the existing transportation infrastructure without an alternative funding strategy.



## *Federal Policies Concerning Funding Strategies*

Federal policies require the use of funding sources that are "reasonably expected to be available." The regulations further indicate that "proposed new revenues and/or revenue sources to cover shortfalls shall be identified, including strategies for ensuring their availability for proposed investments." Because SCAG includes a number of air quality non-attainment areas, the plan must address funding strategies required to ensure the implementation of projects and programs to reach air quality compliance.

Federal policies clearly require caution in formulating funding strategies for the RTP, but they do not preclude the introduction of new revenue sources. Accordingly, SCAG formulated a comprehensive alternative funding strategy. In devising SCAG's alternative funding strategy, two primary objectives were considered by the Finance Task Force:

1. The strategy should provide sufficient revenue to fund the program of projects in the RTP as well as the deficit in the baseline forecast.

2. The strategy should provide sufficient revenue to fund high priority projects that ensure that the region will remain in compliance with air quality conformity requirements.

Additionally, the Finance Task Force recognized that the strategy should include a mechanism to offset the potential decline in gas tax revenues due to the market penetration of alternative fuel vehicles. In further developing the region's funding strategy, the Finance Task Force addressed this decline in gas tax revenues by evaluating the current tax policies on alternative energy sources. Moreover, a set of guiding principles assisted in developing SCAG's alternative funding strategy. The adopted principles are as follows:

1. Ensure that local/regional control is maintained over the decision-making associated with expending the revenues.

2. Rely on the system's users and other direct beneficiaries, in proportion to their impact, to finance a portion of the cost for the facilities and services they require.

3. Provide for flexibility in how the funds may be used to ensure that the highest performing projects will be constructed.

4. Provide for a series of funding options that, in combination, will promote equity in the distribution of benefits and burden.

5. Advance project planning, design and construction of those projects which ensure that the SCAG Region remains in compliance with air quality conformity requirements.

# Recommendations to Implement SCAG's Regional Transportation Plan

Within the framework of the aforementioned objectives and guiding principles, the Finance Task Force, along with various other SCAG committees, engaged in extensive debates concerning the adequacy and feasibility of various revenue options available to respond to the region's funding deficit. Among the options considered included road impact fees and fees based on travel miles. Although these options would generate varying degrees of revenues for the region, many of SCAG's policy makers did not favor their implementation, citing various technical and political obstacles.

## *Innovative Financing*

Innovative federal funding programs were also reviewed for the region. The Finance Task Force recognized that these federal programs could potentially accelerate important projects in the SCAG region, reduce inflationary costs and leverage private capital.[9] From the review, the Task Force concluded that financing mechanisms such as Grant Anticipation Revenue Vehicles (GARVEE bonds) and the Transportation Infrastructure Finance and Innovation Act (TIFIA loans) could be utilized as part of a specific project financing package as candidate RTP projects are identified and programmed.

Some projects have already been identified as being candidates for innovative financing mechanisms. SCAG's proposed SR-60 truck lane project, for example, assumes the imposition of tolls on trucks that use the facility. To raise construction funds totaling about $4.3 billion (in 2000$ [$3.9 in 1997$]), net revenues from the tolls would be leveraged to issue bonds. It is assumed, however, that net toll revenues alone would be insufficient to fund the construction of the truck lanes.[10] In fact, it is estimated that toll revenues would provide roughly 30 percent of the project cost. Local, state and federal grants would cover the

[9] See Financial Plan Appendix for a more detailed discussion of innovative federal funding programs in addition to other alternative funding options considered.
[10] Net toll revenue includes interest earnings and subtracts operations and maintenance expenses.

resulting funding gap. Additionally, GARVEE bonds would be issued to accelerate project construction.

SCAG also assumes the use of innovative public-private partnership for its high speed Maglev project. While the cost of the system is estimated to be $16 billion (in 1997 $), SCAG anticipates that the majority of funds to offset the expenses would be from private sources. The project would be supported by a combination of revenue-backed bonds and loans – in particular, TIFIA loans. Assuming high ridership levels, the project is expected to generate a positive cash flow to cover any outstanding debt service in addition to operating expenses. SCAG also assumes a one-time federal grant contribution of $950 million.[11]

## *Alternative Funding Strategy*

In addition to identifying projects that may be eligible for innovative federal funding, the Finance Task Force further reviewed current transportation finance in the region, examining a number of revenue sources at the federal, state, and local levels of government.[12] The Task Force identified two major funding sources at the state and local levels, namely the fuel tax and the sales tax, that could underpin the funding strategy to generate additional revenues. After a review of the revenue generating capacity of both revenue sources, the following alternative funding strategy was adopted:

1. Continue local sales tax measures for transportation in San Bernardino, Orange, Riverside, and Imperial Counties – in addition, levy a new local transportation sales tax in Ventura County.

2. Continue general fund appropriations for transportation from the state sales tax on gasoline (*extending the Governor's transportation funding program beyond 2006*).

3. Implement a revenue raising mechanism on alternative fuel vehicles that is equivalent to the gas tax (*to recoup loss of revenues resulting from alternative fuel penetration*).

4. Adjust the current state excise fuel tax rate to increase its purchasing power and to be consistent with historical modifications (*by five cents between 2005 and 2010 and by one cent annually thereafter through 2025*).

For the financial requirements of the RTP to be met, several important actions will have to be taken between 2005 and 2010 to ensure that the revenue sources are in place to generate the needed funds. This five year period is critical because the local transportation sales taxes will expire in Imperial, Orange, Riverside and San Bernardino Counties and the assumed phase-in of the alternative fuel policy will begin, resulting in declining motor vehicle fuel taxes. Each component of SCAG's alternative funding strategy is further described in the following paragraphs.

[11] Federal Railroad Administration grant
[12] See Financial Plan Appendix for a detailed breakdown of transportation revenue sources (by levels of government) for the Region.

### Continue Local Sales Tax Measure for Transportation

Local transportation sales taxes originally imposed by majority vote in four counties -- Imperial, Orange, Riverside and San Bernardino -- are scheduled to sunset during the next ten years. Currently, Ventura County does not impose a local transportation sales tax and Los Angeles County has two permanent local taxes. The counties are subject to Proposition 218 in accordance with a California Supreme Court decision, which requires a two-thirds voter approval for the imposition, extension or increase of "special" taxes by a local government.

In recognizing the difficulty many of these counties would have in passing local sales tax initiatives due to the two-thirds voter approval requirement, the baseline revenue forecast initially included the assumption that these local (_ percent) sales taxes would expire. In addition, it was assumed that Ventura County would not impose such a sales tax.

Consequently, some of SCAG's legislative efforts focused on supporting initiatives to establish a less than two-thirds vote process for extending and/or imposing local sales taxes. Although recent legislation to authorize or extend the local sales tax with a less than two-thirds voter approval was not enacted, SCAG's various task forces including the Finance Task Force believe that removing this constraint during the period covered by the 2001 RTP is not unreasonable. By removing this constraint, the region would recognize about $7.86 billion (1997 $) in additional revenues from the extension/implementation of the local sales taxes in the remaining five counties within the SCAG region.



### Continue General Fund Appropriations for Transportation from the State Sales Tax on Gasoline (Extending the Governor's Transportation Funding Program beyond 2006).

AB 2928 (Torlakson) and SB 406 (Ortiz) commit approximately $7 billion in new transportation funding statewide. Of this total, approximately $5 billion funds the Governor's Traffic Congestion Relief Program. During fiscal year 2000-01, the Program appropriates $1.5 billion from the General Fund and transfers $500 million from state gasoline sales tax revenues to transportation. For the five year period thereafter (annually from 2001-02 through 2005-06), the state portion of gasoline sales tax revenues that were previously deposited into the General Fund will be dedicated to transportation. This amount is estimated to be about $1 billion annually.[13]

SCAG's alternative funding strategy includes extending this transfer of the state share of gasoline sales tax revenues from the General Fund to transportation. In doing so, the SCAG region would receive approximately $6 billion in additional revenue through the 2001 RTP period.

[13] Of this $1 billion, $678 million will be allocated each year to fund the projects specified in the Governor's TCRP and the remaining funds will be allocated for local street and roads, transit and STIP projects.

**Implement a Revenue Raising Mechanism on Alternative Fuel Vehicles that is Equivalent to the Gas Tax (to recoup loss of revenues resulting from alternative fuel penetration).**

SCAG's baseline revenue forecast assumes a potentially heavy market penetration of alternative fuel vehicles as the region attempts to meet clean air regulations including the ARB's zero-emission vehicle requirement and the SIP emissions budget.

As the use of conventional gasoline (petroleum based fuels) declines and the consumption of alternative fuels increases, current subsidies and/or tax incentives for alternative fuels would have to be addressed in regard to the future of transportation funding. In order to offset a significant portion of the potential decline in gas tax revenues, it will be important to consider the taxation policies of alternative energy sources. The Finance Task Force, in coordination with SCAG's other committees, approved moving forward with the funding strategy to place a revenue raising mechanism on alternative fuel vehicles.

Although there is no consensus on how such a revenue collection mechanism on alternative fuels would be implemented, SCAG estimated the additional revenues that could be raised from an alternative fuels tax that would be equivalent to the existing state excise gas tax of 18 cents per gallon. Given this assumption, the SCAG region would recognize an additional $7.9 billion in transportation revenues.



**Adjust the State Excise Motor Vehicle Fuel Tax Rate to Increase its Purchasing Power and be Consistent with Historical Modifications.**

State transportation revenues are collected primarily from the state excise fuel tax on motor vehicles. The current state excise fuel tax was last increased in 1990 when it was doubled from 9 cents to 18 cents per gallon over a five year period. If an assumption were made that the legislature would provide for a similar increase fifteen to twenty years later, between 2005 and 2010, the revenue stream for the RTP would be enhanced.

With the re-authorization of the federal transportation legislation scheduled for 2004 and the implementation of Governor Davis' Traffic Congestion Relief Program, a fuel tax increase is reasonable to assume. The Finance Task Force, in coordination with other SCAG committees approved moving forward with efforts to increase the 18-cent per gallon state fuel tax by five-cents within a five year window, between 2005 and 2010, and by one cent annually thereafter through 2025. This tax rate adjustment would apply to all motorized vehicle fuel types.

The revenues from the fuel tax increase would be in addition to the revenues raised by the assumed 18-cent per gallon equivalent alternative fuel tax (as discussed previously) and the existing 18-cent state excise gasoline tax. SCAG anticipates that the fuel tax increase strategy would generate about $18.39 billion through 2025 (in 1997 dollars).

An alternative to a statewide increase in the fuel tax would be to secure authorization for a regional fuel tax, similar to the authorization obtained by the San Francisco region. A regional fuel tax, under current constitutional provisions, would require a two-thirds vote of the regional electorate to be implemented. If the levy is characterized as a user fee, however, the region may be able to bypass the two-thirds vote requirement.

## *Funding Components*

Table 6.5 below itemizes the funds generated from each component. Each of the components, taken together, make up the region's alternative funding strategy in developing a financially feasible and comprehensive 2001 RTP.

**Table 6. 5**

| **2001 RTP Alternative Funding Strategy** *(Constant 1997 $ in billions)* | |
|---|---|
| Funding Component | **$** |
| *Extend/Impose Local Transportation Sales Tax Measures* | 7.86 |
| *Continue Transfer of State Sales Tax Revenues on Gas to Transportation* | 5.97 |
| *Revenue Raising Mechanism on Alternative Fuels* | 7.90 |
| *Adjust State Excise Tax on Motor Vehicle Fuels* | 18.39 |
| Total | **40.12** |

## *SCAG's Regional Checkbook*

The comparison of the checkbook scenarios "*WITH Alternative Funding Strategy*" (Table 6.7) and "*WITHOUT Alternative Funding Strategy*" (Table 6.4) depicts the importance of developing additional revenue generating sources. The SCAG region's alternative funding strategy generates an estimated $40.1 billion throughout the 2001 RTP period (as shown in the third column in Table 6. 6). The additional revenues would offset the region's funding deficit and provide net available resources of an estimated $29.4 billion for new RTP projects.

**Table 6. 6**

| **2001 RTP Regional Checkbook** Constant 1997 Dollars (in billions) | | |
|---|---|---|
| | **WITHOUT Alternative Funding Strategy** | **WITH Alternative Funding Strategy** |
| Baseline Revenues [1] | **$99.8** | **$99.8** |
| Additional Revenues [2] | **$0** | **$40.1** |
| Total Baseline Costs [3] | **$(110.5)** | **$(110.5)** |
| Net Available Revenues for RTP | **$(10.7)** | **$29.4** |

Notes:
(1) Includes traditional revenue sources for transportation such as local, state and federal funds. Innovative funding revenues and private sector contributions are not included.
(2) Includes alternative funding strategy: assume continuation of local sales tax; assume continuation of general fund appropriations from the state sales tax on gasoline (ext. Governor's transportation funding program beyond 2006); implement a revenue raising mechanism on alternative fueled vehicles that is equivalent to the gas tax; and increase the state excise fuel tax. Each of these additional revenue generating sources are further discussed in a latter section.
(3) Includes costs to build short-term committed projects and to operate and maintain the existing transportation system during the RTP period. New RTP capital project costs are not included.

**Table 6. 7**

| Regional Checkbook by County: *WITH* Alternative Funding Strategy<br>In Billions (1997 Dollars) | | | | | |
|---|---|---|---|---|---|
| **County** | **Baseline Revenues** | **Add'l Revenues*** | **Total Revenues** | **Total Baseline Costs** | **Net Available for RTP Projects (1997-2025)** |
| **Imperial** | $0.725 | $0.395 | $1.120 | $ (0.742) | $0.38 |
| **Los Angeles** | 65.544 | 16.775 | 82.310 | (73.761) | 8.56 |
| **Orange** | 15.431 | 8.327 | 23.753 | (16.496) | 7.26 |
| **Riverside** | 6.357 | 5.789 | 12.145 | (6.901) | 5.25 |
| **San Bernardino** | 9.072 | 6.452 | 15.557 | (10.258) | 5.27 |
| **Ventura** | 2.646 | 2.383 | 5.031 | (2.395) | 2.64 |
| **Total** | **$99.795** | **$40.121** | **$139.915** | **$(110.553)** | **$29.35** |

Notes:
*Includes alternative funding strategy.



## *Alternative Funding Implementation Strategy*

To realize this alternative program of funding, several activities must be undertaken, some almost immediately. The following provides a list of some actions to be taken:

1. Create a committee of Regional Council members to provide leadership and direction, on a continuing basis, for the overall implementation of the funding program.

2. Undertake a region-wide, multiyear public awareness program to familiarize decision makers of the issues being addressed in the RTP and the importance of the funding strategies to regional mobility, economic well-being and the quality of life.

3. During the current legislative recess, initiate one-on-one communications with state legislators representing the region, to explain the long-term transportation requirements of the region and the funding options needed to address these requirements.

4. Create a regional partnership involving SCAG, the County Transportation Commissions, the sub-regions and private interests to advocate the implementation of the funding strategies.

SCAG believes that these four elements provide the framework for a multiyear implementation program. The funding components of the program would likely be implemented over the next five to ten years and would require the formation of coalitions both within the Southern California region and throughout the state. Each funding proposal has its own set of conditions that will influence implementation. Recognizing this, SCAG proposes the following sequence of actions:

1. ***Pursue funding in the 2001-02 State Budget for a study for the development and testing of various mechanisms to collect user based revenues from alternative fueled vehicles***. This will entail initiating communication almost immediately with the California Air Resources Board, the California Energy Commission, Caltrans, the Legislative Analyst and other stakeholders. Although the need for this sort of revenue collection mechanism will not occur until 2010, the necessary research and development should begin now because there are many technical and policy unknowns underlying the implementation of a new revenue generating program. It is also important to recognize that the alternative fuel policy that is assumed for the SCAG region to meet air quality conformity requirement has statewide transportation revenue implications, since less populated areas of the state receive subventions and other gas tax revenues from the sale of motor vehicle fuels in Southern California.

2. ***Join with the "self-help" counties and other groups to obtain authorization for a less than two-thirds vote requirement to continue the local transportation sales tax programs***. Local sales taxes have become a central feature of transportation funding over the last two decades in the SCAG Region and elsewhere in California. Since the mid eighties, $5.5 billion has been raised for transportation projects and services in the four counties in the region which have sales taxes scheduled to expire in the next ten years. Other counties in California are encountering similar deadlines, making this a statewide issue.

3. ***Continue the appropriation of state retail sales tax revenues generated from the sale of gasoline for transportation purposes***. The Transportation Congestion Relief Program (TCRP) enacted by the legislature sets aside the revenues received from gasoline sales for annual appropriation to the program of projects, including transit operations, that comprise the TCRP. This is currently scheduled to continue until 2006. Prior to 2006, SCAG should begin informing the public and legislators of the value added to the regional transportation system from the program of projects being funded by the revenues. In addition, SCAG should jointly form coalitions with interest from throughout California to ensure the continuation of this new funding program.

4. ***Adjust the current state excise fuel tax rate to increase its purchasing power and be consistent with historical modifications***. The revenues from a five cents gas tax increase with an additional penny per year until 2025 should be in place between 2005 and 2010 to ensure adequate revenues for the RTP. By that date, it will have also been fifteen to twenty years since the motor vehicle fuel tax was last increased in California. Clearly, there will be a statewide interest in increasing fuel tax revenues to offset the twenty year decline in the revenue's purchasing power. An alternative would be to secure authorization for a regional fuel tax, similar to the authorization obtained by the San Francisco region. A regional fuel tax, under current constitutional provisions, would require a two-thirds vote of the regional electorate to be implemented. However, by characterizing the charge as a user fee, the region may be able to bypass the two-thirds requirement.

## *Aviation and Maritime Funding*

The Regional Checkbook focuses on funding the ground transportation system, but also recognizes the importance of a robust source of financing for airports and seaports. Major airports in the SCAG region derive operating revenues from landing fees, leasing space and facilities, terminal rentals, interest and passenger facility charges. These revenues pay for maintaining and repairing aviation facilities (runways, taxiways, hangars, etc.), providing security and administering the facility. A revenue strategy must be identified to fund ground access improvements which will be needed at regional airports under any future growth scenario. The magnitude of these needs clearly surpasses the ability of the region to pay for them given the Regional Checkbook forecasts. Additions to plants and facilities are funded through capital grants made by the Federal Aviation Administration or local bonding. Revenue for improving the three principal seaports (Hueneme, Long Beach and Los Angeles) is obtained by bonding against shipping container fees, lease fees and other future revenues paid by tenants and other customers.

## *Conclusion*

Clearly, SCAG's region-wide forecast of revenues and costs reflect the need to develop an alternative funding strategy as a means to maintain and expand the existing transportation system to accommodate population growth and the subsequent increase in demand for travel. It is evident that without developing new mechanisms for generating additional revenue, the region would not be able to provide capacity enhancements, let alone preserve the existing transportation infrastructure.

In response to such a need, the SCAG region's alternative funding strategy provides sufficient revenues to support the mobility improvements recommended in the RTP, ensure conformity and cover the potential funding shortfall. Additionally, the inclusion of a sequence of actions provides a defensible strategy for realizing the revenue sources. With an estimated $29.4 billion available for RTP project alternatives, the SCAG region could meet the mobility needs of a diverse and growing population.